

VANMASSENHOVE, KEARLY, TAPHOUSE & FAULMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
120 N. RIPLEY STREET
ALPENA, MICHIGAN 49707-2967

Gary C. VanMassenhove, CPA
J. Michael Kearly, CPA
Jeffrey A. Taphouse, CPA
John D. Faulman, CPA

Members: American Institute of CPA's
Michigan Association of CPA's
TELEPHONE: (989) 354-2111
FAX: (989) 356-3590
E-MAIL: vktf@verizon.net

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name OSSINEKE	County ALPENA
Audit Date 3/31/05	Opinion Date 10/18/05	Date Accountant Report Submitted to State: 12/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

RECEIVED
DEPT. OF TREASURY

DEC 28 2005

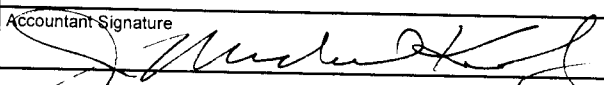
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) VANMASSENHOVE, KEARLY, TAPHOUSE & FAULMAN, P.C.			
Street Address 120 N. RIPLEY STREET		City ALPENA	State MI
Accountant Signature 		ZIP 49707	Date 12-22-05

INDEX

INDEPENDENT AUDITORS' REPORT	<u>PAGE</u> 1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2a – 2e
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	3
STATEMENT OF ACTIVITIES	4
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS:	
BALANCE SHEET	5
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	6
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	7-8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	9
FIDUCIARY FUNDS:	
STATEMENT OF NET ASSETS	10
NOTES TO FINANCIAL STATEMENTS	11-20
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	21-22

VANMASSENHOVE, KEARLY, TAPHOUSE & FAULMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
120 N. RIPLEY STREET
ALPENA, MICHIGAN 49707-2967

Gary C. VanMassenhove, CPA
J. Michael Kearly, CPA
Jeffrey A. Taphouse, CPA
John D. Faulman, CPA

INDEPENDENT AUDITORS' REPORT

Members: American Institute of CPA's
Michigan Association of CPA's
TELEPHONE: (989) 354-2111
FAX: (989) 356-3590
E-MAIL: vkttf@verizon.net

To the Township Board
Township of Ossineke
Alpena County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Ossineke as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Ossineke's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Ossineke, as of March 31, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of April 1, 2004.

October 18, 2005

Van Massenhove, Kearly, Taphouse & Faulman P.C.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended March 31, 2005

Our discussion and analysis of the Township of Ossineke's financial performance provides an overview of the Township of Ossineke's financial activities for the fiscal year ended March 31, 2005.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Ossineke financially as a whole. The *Financial Statements* provide information about the activities of the whole Township of Ossineke presenting both an aggregate view of the Township of Ossineke finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Government activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township of Ossineke's operations in more detail than the Township of Ossineke wide financial statements by providing information about the Township of Ossineke's most significant fund – the General fund. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the Township of Ossineke's wide financial statements for the Township of Ossineke's internet operation.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required supplemental Information)

TOWNSHIP OF OSSINEKE
Alpena County, Michigan
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended March 31, 2005

Reporting the Township of Ossineke as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township of Ossineke's finances is, "is the Township of Ossineke better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township of Ossineke as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Township of Ossineke's net assets as a way to measure the Township of Ossineke's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township of Ossineke's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as facility conditions in arriving at their conclusion regarding the overall health of the Township of Ossineke.

Reporting the Township of Ossineke's Most Significant Funds

Governmental Funds

All of the Township of Ossineke's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental fund statements provide a detailed short-term view of the Township of Ossineke's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township of Ossineke's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended March 31, 2005

Township of Ossineke Wide Financial Analysis

Financial position – The statement of net assets provides the perspective of the Township of Ossineke as a whole. Exhibit A provides a summary of the Township of Ossineke's net assets as of March 3, 2005.

Exhibit A

<u>Assets</u>	<u>Governmental Activities</u>
Cash and Investments	\$ 583,693
Receivables	10,562
Capital Assets Less Accumulated Depreciation	<u>259,711</u>
Total Assets	<u>\$ 853,966</u>
<u>Net Assets</u>	
Investment in Capital Assets	\$ 259,711
Unrestricted	<u>594,255</u>
Total Net Assets	<u>\$ 853,966</u>

Exhibit A focuses on net assets. The Township of Ossineke's total net assets were \$853,966 at March 31, 2005. Capital assets net of related debt, totaling \$259,711 compares the original costs, less depreciation.

The \$594,255 of unrestricted net assets of Governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General and Capital Projects will have a significant impact on the change in unrestricted net assets from year to year.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended March 31, 2005

Results of operations – The results of this year's operations for the Township of Ossineke as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2005. Exhibit B provides a summary of the Township of Ossineke operations for the year. Since this is the first year the Township of Ossineke has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2004 is not available.

Governmental Business-Type

<u>Exhibit B</u>	Governmental Activities
Revenue	
Property Taxes	\$ 129,932
State Revenue Sharing	117,542
Changes for Services	48,001
Interest	4,370
Miscellaneous	2,353
Total Revenue	<u>302,198</u>
Function & Program Expenses	
General Government	90,035
Public Safety	62,333
Public Works	46,780
Recreation and Culture	12,048
Total Function & Program Expenses	<u>211,196</u>
Increase (Decrease) in Net Assets	<u>\$ 91,002</u>

TOWNSHIP OF OSSINEKE
Alpena County, Michigan
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended March 31, 2005

As reported in the statement of activities, the cost of all of our *Governmental and business-type* activities this year was \$211,196. Certain activities were partially funded by \$48,000 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our Governmental with State revenue sharing, property tax, interest, miscellaneous income and our other revenues, such as interest, grants and contributions

The Township of Ossineke experienced an increase (decrease) in net assets of \$91,002, mainly due to actual expenditures being less than anticipated. There were no significant revenue increases this year. The increase (decrease) in net assets differs from the change in fund balances and a reconciliation appears in the financial statements.

General Fund Budgetary Highlights

Over the course of the year, the Township of Ossineke revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township of Ossineke's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenue remained the same.
- Budgeted expenditures were increased about \$80,000 during the fiscal year.
- Actual expenditures for the year were \$126,000 less than anticipated.

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state revenue sharing next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Township of Ossineke expenditures in response to any revenue shortfall.

Contacting The Township of Ossineke

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township of Ossineke's finances and to show the Township of Ossineke's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township of Ossineke at 7614 Hubert Road, Hubbard Lake, MI 49747.

Township of Ossineke
Alpena County, Michigan

STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 583,693.26
Receivables	10,561.45
Capital assets:	
Nondepreciable capital assets	2,000.00
Depreciation capital assets, net	<u>257,711.02</u>
Total assets	<u><u>\$ 853,965.73</u></u>
Liabilities:	
Accounts payable and accrued expenses	<u>\$ -0-</u>
Total liabilities	<u>-0-</u>
Net assets:	
Invested in capital assets	259,711.02
Unrestricted	<u>594,254.71</u>
Total net assets	<u><u>\$ 853,965.73</u></u>

Township of Ossineke
Alpena County, Michigan

STATEMENT OF ACTIVITIES
Year Ended March 31, 2005

Functions/Programs	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contribution</u>	<u>Net (Expense) Revenue</u>
<i>Governmental activities:</i>				
General government	\$ 90,034.56	\$ 21,074.13	\$ -0-	\$ (68,960.43)
Public safety	62,332.71	26,926.38	-0-	(35,406.33)
Public works	46,780.37	-0-	-0-	(46,780.37)
Recreation and culture	12,048.24	-0-	-0-	(12,048.24)
Total governmental activities	<u>\$ 211,195.88</u>	<u>\$ 48,000.51</u>	<u>\$ -0-</u>	<u>\$ (163,195.37)</u>

General revenues:

Taxes:

Property taxes - General	\$ 76,306.58
- Fire	53,625.33

Grants and contributions not restricted to specific programs	117,542.00
Investment earnings	4,370.26
Miscellaneous	2,353.38

Total general revenues	<u>254,197.55</u>
------------------------	-------------------

Change in net assets	91,002.18
----------------------	-----------

Net assets, beginning of year	<u>762,963.55</u>
-------------------------------	-------------------

Net assets, end of year	<u>\$ 853,965.73</u>
-------------------------	----------------------

Township of Ossineke
Alpena County, Michigan
GOVERNMENTAL FUNDS

BALANCE SHEET
March 31, 2005

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 583,693.26
Taxes receivable	<u>10,561.45</u>
Total assts	<u>\$ 594,254.71</u>
Liabilities and Fund Balance;	
Accounts payable	
and accrued expenses	\$ -0-
Total liabilities	<u>-0-</u>
Unreserved:	
General Fund	<u>594,254.71</u>
Total fund balance	<u>594,254.71</u>
Total liabilities and fund balance	<u>\$ 594,254.71</u>

Township of Ossineke
Alpena County, Michigan

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL
FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
For Year Ended March 31, 2005

Total fund balances for governmental funds			\$ 594,254.71
Total net assets reported for governmental activities in the statement of of net assets in different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	290,451.74		
Less accumulated depreciation	<u>(30,740.72)</u>		
			<u>259,711.02</u>
Net assets of governmental activities			<u><u>\$ 853,965.73</u></u>

Township of Ossineke
Alpena County, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended March 31, 2005

Revenues:

Property taxes	\$ 125,591.91
Other taxes - swamp tax	4,340.00
Licenses and permits	26,926.38
State revenue sharing	117,542.00
Charges for service-fee:	
PTAF	17,224.13
Cemetery	2,700.00
Interest	4,370.26
Rent	1,150.00
Miscellaneous	2,353.38

Total revenues	<u>302,198.06</u>
----------------	-------------------

Expenditures

Legislative:

Township board	18,847.89
----------------	-----------

General government:

Supervisor	11,902.52
Elections	2,824.45
Assessor	7,272.64
Clerk	14,885.24
Board of review	1,200.00
Treasurer	11,610.00
Building and grounds	11,166.17
Cemetery	5,284.11

Public Safety:

Liquor law enforcement	1,074.52
Fire protection	113,323.00
Inspections	25,900.08
Planning and zoning	3,552.48

Township of Ossineke
Alpena County, Michigan
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended March 31, 2005

Expenditures (continued);	
Public works:	
Highways, streets and roads	46,419.74
Street lighting	360.63
Other functions:	
Contingency	-0-
Community programs	12,048.24
	<hr/>
Total expenditures	287,671.71
	<hr/>
Excess (deficiency) of revenues over expenditures	14,526.35
	<hr/>
Fund balance, April 1, 2004	579,728.36
	<hr/>
Fund balance, March 31, 2005	\$ 594,254.71
	<hr/>

Township of Ossineke
Alpena County, Michigan

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For Year Ended March 31, 2005

Net change in fund balance - total governmental funds \$ 14,526.35

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	81,790.00	
Less depreciation expense	<u>(5,314.17)</u>	
		<u>76,475.83</u>

Change in net assets of governmental activities \$ 91,002.18

Township of Ossineke
Alpena County, Michigan

FIDUCIARY FUNDS - AGENCY FUND
STATEMENT OF NET ASSETS
March 31, 2005

	Current Tax Collection Fund
Assets:	
Cash and cash equivalents	\$ -0-
Liabilities:	
Total liabilities	-0-
Net Assets:	
Unrestricted	-0-
Total net assets	\$ -0-

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Township of Ossineke conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Township and its component units, if any. In evaluating the Township as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Township may be financially accountable and, as such, should be included within the Township's financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and it is able to impose its will on the organization or there is a potential for the organization to provide specific financial burden on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units included in the Township's reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the propriety fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in three parts: invested in capital assets, restricted net assets, if any, and unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Township's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Township does not allocate indirect costs.

The government-wide focus is on the sustainability of the Township as an entity and the changes in the Township's net assets resulting from current year activities.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, license, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the propriety funds.

The Township reports the following major government funds:

The **General Fund** is the primary operating fund of the Township. It is used to account for all financial resources, except for those required to be accounted for in another fund.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value.

Inventories and Prepaid Items – Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Township defines capital assets as assets with an initial individual cost in excess of \$500. Cost of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after April 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-40 years
Equipment	5-25 years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations, if any, are reported as liabilities in the governmental activities statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes:

Properties are assessed as of December 31. The related property taxes become a lien on December 1 of the following year. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The delinquent real property taxes of the Township are purchased by Alpena County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted by adoption of the Township Board.
4. Any revision that alters the total expenditures of any fund must be approved by the Township.
5. Formal budgetary integration is employed as a management control device during the year for all funds.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget as originally adopted and amended by the Township Board is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds;

During the year, the Township did not incur expenditures that were in excess of the amounts budgeted.

NOTE 3: DEPOSITS AND INVESTMENTS

The Township's deposits of \$583,643.26 at March 31, 2005 are included in the statement of net assets under cash and cash equivalents.

The deposits of the governmental activities were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or deposits in transit) at \$586,305.54, of which \$201,802.85 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk for each institution; only those institutions with an acceptable estimated risk level are used as depositories. Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

Investments:

State statutes authorize the Township to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Township.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 3: DEPOSITS AND INVESTMENTS (continued)

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the Township or its agent in the Township's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township had no investments.

NOTE 4: CAPITAL ASSETS

Governmental capital asset activity for the year ended March 31, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 2,000.00	\$ -0-	\$ -0-	\$ 2,000.00
Depreciable capital assets:				
Buildings and improvements	201,661.74	-0-	-0-	201,661.74
Equipment	5,000.00	81,790.00	-0-	86,790.00
Total depreciable capital assets	206,661.74	81,790.00	-0-	288,451.74
Accumulated depreciation	(25,426.55)	(5,314.17)	-0-	(30,740.72)
Depreciable capital assets, net	181,235.19	76,475.83	-0-	257,711.02
Governmental activities, capital assets, net	\$ 183,235.19	\$ 76,475.83	\$ -0-	\$ 259,711.02

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 4: CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 5,041.54
Public safety	<u>272.63</u>

Total governmental activities	<u>\$ 5,314.17</u>
-------------------------------	--------------------

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the Township had no deferred revenue.

NOTE 6: LONG-TERM LIABILITIES

The Township may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment.

At year end, the Township had no long-term liabilities.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 7: AGGREGATED RECEIVABLES

Receivables as of year end for the Township's governmental activities in the aggregate are as follows:

	Governmental Activities
Receivables:	
Taxes	\$ <u>10,561.45</u>

NOTE 8: RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation). The Township has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Contribution Plan:

The Township has a retirement plan that covers all employees except election workers. Under the plan, the Township contributes a percentage of the employees' annual earnings. The Township's contributions amounted to \$3,109.20 for the year ended March 31, 2005. The plan is administered by Travelers Insurance Company.

TOWNSHIP OF OSSINEKE
Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (continued)

The Township provides no post employment benefits on deferred compensation.

Deferred Compensation Plan:

The Township provides no deferred compensation plan.

NOTE 10: PRIOR PERIOD ADJUSTMENT

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Township is required to implement the new requirements for the year ended March 31, 2005. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- Government-wide financial statements prepared using full accrual accounting for all of the Township's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net assets accounts:

Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balance of general fund as of 3/31/04	\$ 579,728.36
Add: Governmental capital assets, including general fixed assets as of 3/31/04	208,661.74
Deduct: Accumulated depreciation as of 3/31/04 on above governmental capital assets	<u>(25,426.55)</u>
Governmental net assets, restated, as of 3/31/04	<u>\$ 762,963.55</u>

Township of Ossineke
Alpena County, Michigan
BUDGETARY COMPARISON SCHEDULE
Year Ended March 31, 2005

<u>General Fund</u>				
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:				
Property taxes	\$ 124,980.00	\$ 124,980.00	\$ 125,591.91	\$ 611.91
Other taxes - swamp tax	4,340.00	4,340.00	4,340.00	-0-
Licenses and permits	30,050.00	30,050.00	26,926.38	(3,123.62)
State revenue sharing	150,000.00	150,000.00	117,542.00	(32,458.00)
Charges for service-fees:				
PTAF	18,000.00	18,000.00	17,224.13	(775.87)
Cemetery	2,900.00	2,900.00	2,700.00	(200.00)
Interest	9,850.00	9,850.00	4,370.26	(5,479.74)
Rent	2,300.00	2,300.00	1,150.00	(1,150.00)
Miscellaneous	3,250.00	3,250.00	2,353.38	(896.62)
Total revenues	<u>345,670.00</u>	<u>345,670.00</u>	<u>302,198.06</u>	<u>(43,471.94)</u>
Expenditures				
Legislative:				
Town board	48,200.00	46,200.00	18,847.89	(27,352.11)
General government:				
Supervisor	10,700.00	11,903.00	11,902.52	(0.48)
Elections	2,910.00	2,910.00	2,824.45	(85.55)
Assessor	7,850.00	7,850.00	7,272.64	(577.36)
Clerk	13,900.00	14,886.00	14,885.24	(0.76)
Board of review	1,500.00	1,500.00	1,200.00	(300.00)
Treasurer	12,400.00	12,400.00	11,610.00	(790.00)
Building and grounds	13,900.00	13,900.00	11,166.17	(2,733.83)
Cemetery	6,845.00	6,845.00	5,284.11	(1,560.89)
Public Safety:				
Liquor law enforcement	1,120.00	1,110.00	1,074.52	(35.48)
Fire Protection	34,560.00	116,350.00	113,323.00	(3,027.00)
Inspections	28,500.00	28,500.00	25,900.08	(2,599.92)
Planning and zoning	6,020.00	6,020.00	3,552.48	(2,467.52)

Township of Ossineke
Alpena County, Michigan

BUDGETARY COMPARISON SCHEDULE
Year Ended March 31, 2005

	<u>General Fund</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Expenditures (continued);				
Public works:				
Highways, streets and roads	200,000.00	200,000.00	46,419.74	(153,580.26)
Street lighting	600.00	600.00	360.63	(239.37)
Other functions:				
Contingency	15,000.00	12,811.00	-0-	(12,811.00)
Community programs	<u>2,600.00</u>	<u>2,600.00</u>	<u>12,048.24</u>	<u>9,448.24</u>
Total expenditures	<u>406,605.00</u>	<u>486,385.00</u>	<u>287,671.71</u>	<u>(198,713.29)</u>
Excess (deficiency) of revenues over expenditures	(60,935.00)	(140,715.00)	14,526.35	155,241.35
Fund balance, April 1, 2004	<u>579,728.36</u>	<u>579,728.36</u>	<u>579,728.36</u>	<u>-0-</u>
Fund balance, March 31, 2005	<u>\$ 518,793.36</u>	<u>\$ 439,013.36</u>	<u>\$ 594,254.71</u>	<u>\$ 155,241.35</u>

VANMASSENHOVE, KEARLY, TAPHOUSE & FAULMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
120 N. RIPLEY STREET
ALPENA, MICHIGAN 49707-2967

Gary C. VanMassenhove, CPA
J. Michael Kearly, CPA
Jeffrey A. Taphouse, CPA
John D. Faulman, CPA

December 7, 2005

Members: American Institute of CPA's
Michigan Association of CPA's
TELEPHONE: (989) 354-2111
FAX: (989) 356-3590
E-MAIL: vktf@verizon.net

Township of Ossineke
Alpena County

We have audited the financial statements of the Township of Ossineke as of and for the year then ended March 31, 2005 and have issued our report thereon dated October 18, 2005. As a part of our audit, we made a study and evaluation of the Township of Ossineke's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the general purpose financial statements and to assist the auditor in planning and performing his audit of the general purpose financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by managements.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can results from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of general purpose financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

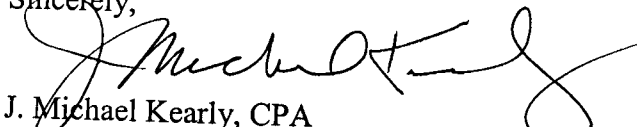
Our audit of the general purpose financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the Sanborn Township's internal accounting control for the year ended March 31, 2005 that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

However, such a study and evaluation did not disclose a condition that we believe to be a material weakness.

If we can be of any further assistance to you, please do not hesitate to contact us.

We express our appreciation for the courtesies and cooperation extended to us while conducting the audit.

Sincerely,



J. Michael Kearly, CPA